

CITY OF INDEPENDENCE

Financial Statements

June 30, 2007

CITY OF INDEPENDENCE

INDEPENDENT AUDITOR'S REPORT

BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

AUDITOR'S REPORT ON COMPLIANCE, COMMENTS AND RECOMMENDATIONS

JUNE 30, 2007

CITY OF INDEPENDENCE

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CITY OF INDEPENDENCE

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Frank Brimmer	Mayor	January 2010
Greg Bressler	Mayor Pro Tem Council Member Ward 5	January 2010
Cheryl Hand	Council Member at Large	January 2008
Paul Paisley	Council Member at Large	January 2010
Mike Hayward	Council Member Ward 1	January 2010
Dolores Shannon	Council Member Ward 2	January 2008
Richard Engen	Council Member Ward 3	January 2010
Julie Wulfekuhle	Council Member Ward 4	January 2008
Alan Johnson	City Manager	Indefinite
Debra Lynn	City Clerk	Indefinite
Sarah Dooley-Rothman	City Attorney	Indefinite

CITY OF INDEPENDENCE



SHAFFER COMPANY, P.C.

Certified Public Accountant

P. O. Box 125
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Sumner, Iowa 50674
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Independent Auditor's Report

To the Honorable Mayor and Members of the City Council:

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Independence's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Independence as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, I have also issued my reports dated January 30, 2008 on my consideration of the City of Independence's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.

Management's Discussion and Analysis and budgetary comparison information on pages 8 through 13 and 30 through 31 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. I applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the City of Independence's basic financial statements. I previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two year ended June 30, 2006 and (none of which are presented herein) and expressed an unqualified opinion on those financial statements which were prepared in conformity with an other comprehensive basis of accounting.

The financial statements for the year ended June 30, 2004 have been audited by other auditors, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the one year ended June 30, 2004 (none of which are presented herein) and expressed an unqualified opinion on those financial statements which were prepared in conformity with an other comprehensive basis of accounting.

Other supplementary information included in Schedules 1 through 4, including, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

January 30, 2008

CITY OF INDEPENDENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Independence provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased 6%, or approximately \$325,000, from fiscal 2006 to fiscal 2007. Property tax increased approximately \$122,000. Tax increment financing proceeds increased approximately \$184,000.
- Disbursements increased 29%, or approximately \$1.4 million, in fiscal 2007 from fiscal 2006.
- The City's total cash basis net assets decreased 10%, or approximately \$0.6 million, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$566,000 and the assets of the business type activities decreased by approximately \$41,500.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

CITY OF INDEPENDENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out to those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds, considered to be major funds of the City.

CITY OF INDEPENDENCE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased sharply from a year ago, decreasing from \$2.4 million to \$1.8 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for services	\$ 622	627
Operating grants, contributions, and restricted interest	724	851
Capital grants, contributions, and restricted interest	521	286
General receipts:		
Property tax	1,802	1,680
Tax increment financing	925	741
Local option sales tax	521	372
Unrestricted investment earnings	96	63
Other general receipts	491	546
Transfers	40	251
Total receipts	5,742	5,417
Disbursements and transfers:		
Public Safety	1,519	1,329
Public Works	911	899
Culture & Recreation	716	751
Community & Economic Development	593	345
General Government	433	393
Debt Service	544	550
Capital Projects	1,592	622
Total disbursements and transfers	6,308	4,889
Increase in cash basis net assets	(566)	528
Cash basis net assets beginning of year	2,411	1,883
Cash basis net assets end of year	\$ 1,845	2,411

CITY OF INDEPENDENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS

The City's total receipts for governmental activities were \$5.7 million compared to \$5.4 million last year, an increase of 6%, or \$325,000.

The total cost of all programs and services was \$6.3 million compared to 4.9 million for June 30, 2006. This increased by approximately \$1.4 million, or 29%.

Changes in Cash Basis Net Assets of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for services		
Water	\$ 642	649
Sewer	1,165	1,498
General receipts:		
Interest on investments	130	130
Other general receipts	0	1
Total receipts and transfers	1,937	2,278
Disbursements:		
Water	453	464
Sewer	1,486	2,586
Transfers	40	251
Total disbursements and transfers	1,979	3,301
Increase (decrease) in cash balance	(42)	(1,023)
Cash basis net assets beginning of year	3,966	4,989
Cash basis net assets end of year	\$ 3,924	3,966

Total business type activities receipts for the fiscal year were \$1.9 million compared to \$2.3 million last year. This decreased by approximately \$340,000, or 15%.

The cash balance decreased by approximately \$42,000 from the prior year. Total disbursements and transfers for the fiscal year decreased by 40% or \$1.3 million due mainly to the construction of the waste water treatment plant.

CITY OF INDEPENDENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Independence completed the year, its governmental funds reported a combined fund balance of \$1,845,000, a decrease of approximately \$566,000 below last year's total of \$2,411,000. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased \$395,000 from the prior year to \$546,000.
- At the end of the fiscal year, the cash balance of the Urban Renewal Tax Increment Fund was \$7,000. This is a decrease of \$312,000.
- Local Option Sales Tax Fund ended with \$372,000, up \$207,000 from the prior year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

For the propriety funds, the City reported a combined fund balance of \$3,924,000, a decrease of approximately \$42,000 below last year's total of \$3,966,000. The following are the major reasons for the changes in fund balances from the prior year.

- The Water Fund cash balance increased by \$170,000 to \$2.12 million.
- The Sewer Fund cash balance decreased by \$211,600 to \$1.81 million.

BUDGETARY HIGHLIGHTS

The City amended its budget on May 26, 2007. The amendment provided for an additional \$1,039,500 in disbursements. The amendment also provided for an additional \$682,200 in revenues.

CITY OF INDEPENDENCE
MANAGEMENT'S DISCUSSION AND ANALYSIS

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$9.22 million in bonds and other long-term debt, compared to approximately \$9.94 million last year, as shown below:

	Outstanding Debt at Year-End (Expressed in Thousands)	Year ended June 30,	
		2007	2006
General obligation bonds	\$	1,655	2,125
Municipal Light Plant loan		12	26
Sewer revenue bonds		7,550	7,790
Total	\$	9,217	9,941

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt is significantly below its constitutional debt limit.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Independence's elected and appointed officials and department heads considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities.

When adopting the budget for fiscal year 2008, it was recommended that departments attempt to remain at the same level of funding as the fiscal year 2007 budget. Although property tax receipts are projected to increase, the City is still recovering from the reduction in general funds revenues due to the state budget cuts. Revenue from Road Use Taxes will continue to pay for street lighting and street maintenance, although the Iowa Department of Transportation has announced a reduction in Road Use Tax revenue projections, caused in part by increased fuel costs. Rising costs in street maintenance, additional street lighting in the new subdivisions and projected increases in electrical rates, combined with minimal increase in Road Use Tax revenues, make it increasing difficult to maintain the current level of services. The City has added no major new programs to the 2008 budget.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Debra A. Lynn, City Clerk/Treasurer, 331 First Street East, Independence, Iowa 50644.

CITY OF INDEPENDENCE

CITY OF INDEPENDENCE
Basic Financial Statements

CITY OF INDEPENDENCE

Statement of Activities and Net Assets - Cash Basis

As of and for the year ended June 30, 2007

Functions / Programs:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Governmental activities:				
Public safety	\$ 1,519,395	47,954	115,145	0
Public works	910,403	385,874	511,785	0
Culture and recreation	715,978	188,343	31,598	0
Community and economic development	592,420	0	65,288	0
General government	433,101	92	0	0
Debt service	544,152	0	0	0
Capital projects	1,592,051	0	0	521,420
Total governmental activities	6,307,500	622,263	723,816	521,420
Business type activities:				
Water	764,494	642,363	0	0
Sewer	1,175,196	1,164,925	0	0
Total business type activities	1,939,690	1,807,288	0	0
Totals	\$ 8,247,190	2,429,551	723,816	521,420

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
 Local option sales tax
 Unrestricted interest on investments
 Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted
 Debt service
 Unrestricted

Total Cash Basis Net Assets

See notes to financial statements.

Governmental Activities	Business Type Activities	Total
(1,356,296)	0	(1,356,296)
(12,744)	0	(12,744)
(496,037)	0	(496,037)
(527,132)	0	(527,132)
(433,009)	0	(433,009)
(544,152)	0	(544,152)
(1,070,631)	0	(1,070,631)
(4,440,001)	0	(4,440,001)
0	(122,131)	(122,131)
0	(10,271)	(10,271)
0	(132,402)	(132,402)
(4,440,001)	(132,402)	(4,572,403)
1,490,188	0	1,490,188
924,900	0	924,900
311,505	0	311,505
521,157	0	521,157
95,688	130,458	226,146
490,708	365	491,073
40,000	(40,000)	0
3,874,146	90,823	3,964,969
(565,855)	(41,579)	(607,434)
2,411,253	3,965,907	6,377,160
\$ 1,845,398	3,924,328	5,769,726
\$ 290,556	805,220	1,095,776
1,554,842	3,119,108	4,673,950
\$ 1,845,398	3,924,328	5,769,726

CITY OF INDEPENDENCE

Statement of Cash Receipts, Disbursements and Changes in Cash Balances Governmental Funds As of and for the year ended June 30, 2007

	Special Revenue		
	Urban		
	General	Renewal Tax Increment	Employees' Benefits
Receipts:			
Property tax	\$ 1,128,491	0	361,697
Tax Increment Financing (TIF) receipts	0	924,900	0
Other city tax	22,104	0	0
Licenses and permits	34,136	0	0
Use of money and property	55,774	36,470	0
Intergovernmental	607,208	0	0
Charges for services	622,263	0	0
Special assessments	0	0	0
Miscellaneous	318,842	2,000	3,120
Total receipts	2,788,818	963,370	364,817
Disbursements:			
Operating:			
Public Safety	1,175,016	0	344,379
Public Works	402,955	0	0
Culture & Recreation	603,620	0	112,358
Community & Economic Development	70,281	304,391	0
General Government	345,455	0	87,646
Debt Service	0	0	0
Capital Projects	1,120,506	0	0
Total disbursements	3,717,833	304,391	544,383
Excess of receipts over disbursements	(929,015)	658,979	(179,566)
Other financing sources (uses):			
Operating transfers in	533,865	0	136,875
Operating transfers out	0	(971,050)	0
Total other financing sources (uses)	533,865	(971,050)	136,875
Net change in cash balances	(395,150)	(312,071)	(42,691)
Cash balances beginning of year	941,312	319,185	416,146
Cash balances end of year	\$ 546,162	7,114	373,455
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ 0	0	0
Unreserved:			
General fund	546,162	0	0
Special revenue funds	0	7,114	373,455
Capital projects funds	0	0	0
Total cash basis fund balances	\$ 546,162	7,114	373,455

See notes to financial statements.

Special Revenue		Other Nonmajor Governmental Funds	Total
Local Option Sales Tax	Debt Service		
0	311,505	0	1,801,693
0	0	0	924,900
0	0	0	22,104
0	0	0	34,136
3,400	0	44	95,688
521,157	0	678,273	1,806,638
0	0	0	622,263
0	33,281	0	33,281
36,980	0	0	360,942
561,537	344,786	678,317	5,701,645
0	0	0	1,519,395
0	0	507,448	910,403
0	0	0	715,978
217,748	0	0	592,420
0	0	0	433,101
0	544,152	0	544,152
0	0	471,545	1,592,051
217,748	544,152	978,993	6,307,500
343,789	(199,366)	(300,676)	(605,855)
0	147,185	330,000	1,147,925
(136,875)	0	0	(1,107,925)
(136,875)	147,185	330,000	40,000
206,914	(52,181)	29,324	(565,855)
165,119	342,737	226,754	2,411,253
372,033	290,556	256,078	1,845,398
0	290,556	0	290,556
0	0	0	546,162
372,033	0	140,721	893,323
0	0	115,357	115,357
372,033	290,556	256,078	1,845,398

CITY OF INDEPENDENCE

Exhibit C

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
 Proprietary Funds
 As of and for the year ended June 30, 2007

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 642,363	1,164,925	1,807,288
Miscellaneous	365	0	365
Total operating receipts:	642,728	1,164,925	1,807,653
Operating disbursements:			
Business type activities	453,146	909,674	1,362,820
Excess (deficiency) of operating receipts over (under) operating disbursements	189,582	255,251	444,833
Non-operating receipts (disbursements)			
Interest on investments	80,434	50,024	130,458
Debt service	0	(576,870)	(576,870)
Net non-operating receipts (disbursements)	80,434	(526,846)	(446,412)
Excess (deficiency) of receipts over (under) disbursements	270,016	(271,595)	(1,579)
Operating transfers in (out), net	(100,000)	60,000	(40,000)
Net change in cash balances	170,016	(211,595)	(41,579)
Cash balances beginning of year	1,946,732	2,019,175	3,965,907
Cash balances end of year	\$ 2,116,748	1,807,580	3,924,328
Cash Basis Fund Balances			
Reserve for debt service	\$ 0	805,220	805,220
Unreserved	2,116,748	1,002,360	3,119,108
Total cash basis fund balances	\$ 2,116,748	1,807,580	3,924,328

See notes to financial statements.

CITY OF INDEPENDENCE
Notes to the Financial Statements

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(1) **Summary of Significant Accounting Policies**

The City of Independence is a political subdivision of the State of Iowa located in Buchanan County. It was first incorporated in 1864 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, public improvements and general government services. The City also provides water and sewer for its citizens.

A. **Reporting Entity**

For financial reporting purposes, City of Independence has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Buchanan County Assessor's Conference Board, Buchanan County Emergency Management Commission, and Buchanan County Joint E911 Service Board.

B. **Basis of Presentation**

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies, Continued**

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursement, the fixed charges and the capital improvement costs that are not paid for other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Employees' Benefits Fund is used to account for the collection of payroll taxes and provide social security and medicare, IPERS, and health insurance benefits to its employees.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(1) **Summary of Significant Accounting Policies, Continued**

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Independence maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the function of Business Type Activities.

(2) **Deposits and Investments**

The City's deposits and investments at June 30, 2007, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

As of June 30, 2007, the City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(3) **Bonds and Notes Payable**

Annual debt service requirements to maturity for general obligation bonds, loan, and revenue notes are as follows:

Year Ending June 30,	General Obligation Bonds		Independence Light Plant Loan		Sewer Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	475,000	59,652	11,826	0	250,000	327,190	736,826	386,842
2009	255,000	44,690	0	0	255,000	317,940	510,000	362,630
2010	125,000	36,275	0	0	380,000	308,505	505,000	344,780
2011	100,000	31,900	0	0	395,000	293,475	495,000	325,375
2012	100,000	28,300	0	0	405,000	277,850	505,000	306,150
2013	100,000	24,550	0	0	350,000	261,818	450,000	286,368
2014	100,000	20,650	0	0	360,000	247,707	460,000	268,357
2015	100,000	16,650	0	0	375,000	232,968	475,000	249,618
2016	100,000	12,600	0	0	390,000	217,388	490,000	229,988
2017	100,000	8,500	0	0	410,000	200,888	510,000	209,388
2018 and after	100,000	4,300	0	0	3,980,000	881,060	4,080,000	885,360
TOTALS	1,655,000	288,067	11,826	0	7,550,000	3,566,789	9,216,826	3,854,856

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

Included in the general obligation bonds are Urban Renewal Tax Increment Financing Bonds of \$140,000 that were refunded during the year and are included in with the general obligation bonds listed above that were issued during the year. Their maturity schedule is \$90,000 for 2008, and \$50,000 for 2009.

The resolutions providing for the issuance of the revenue notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the fund.
- (b) Sufficient monthly transfers shall be made to the sewer revenue note sinking accounts within the Enterprise Funds for the purpose of making the note principal and interest payments when due.
- (c) Additional monthly transfers of \$5,000 to the wastewater treatment improvement fund, and 1/12 of the next year's obligation to a sewer revenue bond sinking fund within the Enterprise Funds shall be made until specific minimum balance have been accumulated. These accounts are restricted for the purpose of paying for any additional improvements, extensions or repairs to the system.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

(3) **Bonds and Notes Payable, Continued**

(d) All funds remaining in the sewer rental account after the payment of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue surplus account within the Enterprise Funds until a minimum of \$175,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other accounts might be unable to make.

(4) **Municipal Light Plant Loan**

On March 11, 1996, the City entered into a loan agreement with the Independence Light Plant in the amount of \$72,000. The City used the money for the addition of a van to the Independence Fire Department. Then on August 26, 1999, the City borrowed an additional \$64,026 for the purchase of air packs for the Independence Fire Department. This amount was added to the balance of the loan dated March 11, 1996. The City is to make \$13,800 payments per year on the 15th day of July each year thereafter until paid in full. This debt is interest free. Balance on June 30, 2007 was \$11,826.

(5) **Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$115,826, \$111,901 and \$109,991 respectively, equal to the required contributions for each year.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(6) **Compensated Absences**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$155,512
Sick Leave *	600,650 *
Total	\$756,162

* Sick leave is not payable upon termination, retirement or death.

This liability has been computed based on rates of pay as of June 30, 2007.

(7) **Litigation**

The City had no pending litigation, claims, or assessments at June 30, 2007.

(8) **Risk Management**

The City of Independence is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) **Related Party Transactions**

The City had no business transactions between the City and the City's officials and employees.

(10) **Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2007, disbursements in the Business Type Activities function exceeded the amount budgeted.

CITY OF INDEPENDENCE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

(10) **Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise	
	Water	100,000
	Sewer	40,000
General	Special Revenue	
	Urban Renewal TIF	393,865
Special Revenue	Special Revenue	
Employees' Benefits	Local Option Sales Tax	136,875
Debt Service	Special Revenue	
	Urban Renewal TIF	147,185
Capital Projects	Special Revenue	
	Urban Renewal TIF	330,000
Enterprise	Special Revenue	
Sewer	Urban Renewal TIF	100,000

CITY OF INDEPENDENCE
Required Supplementary Information

CITY OF INDEPENDENCE

Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 1,801,693	0
Tax Increment Financing (TIF) receipts	924,900	0
Other city tax	22,104	0
Licenses and permits	34,136	0
Use of money and property	95,688	130,458
Intergovernmental	1,806,638	0
Charges for services	622,263	1,807,288
Special Assessments	33,281	0
Miscellaneous	360,942	365
Total receipts	5,701,645	1,938,111
Disbursements:		
Public Safety	1,519,395	0
Public Works	910,403	0
Health & Social Services	0	0
Culture & Recreation	715,978	0
Community & Economic Development	592,420	0
General Government	433,101	0
Debt Service	544,152	0
Capital Projects	1,592,051	0
Business type activities	0	1,939,690
Total disbursements	6,307,500	1,939,690
Excess of receipts over disbursements	(605,855)	(1,579)
Other financing sources, net	40,000	(40,000)
Excess of receipts and other financing sources over disbursements and other financing uses	(565,855)	(41,579)
Balances beginning of year	2,411,253	3,965,907
Balances end of year	\$ 1,845,398	3,924,328

See accompanying independent auditor's report.

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final to Net Variance	Net as % of Final Budget
1,801,693	1,856,221	1,856,221	(54,528)	97.1%
924,900	875,090	875,090	49,810	105.7%
22,104	406,811	589,968	(567,864)	3.7%
34,136	34,012	34,012	124	100.4%
226,146	162,207	237,707	(11,561)	95.1%
1,806,638	7,257,255	7,437,566	(5,630,928)	24.3%
2,429,551	2,538,957	2,545,457	(115,906)	95.4%
33,281	75,000	75,000	(41,719)	44.4%
361,307	532,150	668,893	(307,586)	54.0%
7,639,756	13,737,703	14,319,914	(6,680,158)	53.4%
1,519,395	1,893,033	1,950,586	431,191	77.9%
910,403	906,398	918,203	7,800	99.2%
0	410	410	410	0.0%
715,978	736,158	739,002	23,024	96.9%
592,420	489,999	760,549	168,129	77.9%
433,101	437,954	440,263	7,162	98.4%
544,152	544,153	544,153	1	100.0%
1,592,051	7,210,000	7,904,467	6,312,416	20.1%
1,939,690	1,713,471	1,713,471	(226,219)	113.2%
8,247,190	13,931,576	14,971,104	6,723,914	55.1%
(607,434)	(193,873)	(651,190)		
0	525,000	625,000		
(607,434)	331,127	(26,190)		
6,377,160	5,344,025	5,344,025		
5,769,726	5,675,152	5,317,835		

CITY OF INDEPENDENCE

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Disbursements for the Proprietary Funds are required to be budgeted. During the year, a budget amendment increased budgeted disbursements by \$1,039,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the business type activities function.

CITY OF INDEPENDENCE

Other Supplementary Information

Schedule 1**CITY OF INDEPENDENCE****Statement of Cash Receipts, Disbursements
and Changes in Cash Balances****Nonmajor Governmental Funds**

As of and for the year ended June 30, 2007

		Special Revenue		
		Road Use	Capital Projects	Total
Receipts:				
Intergovernmental	\$	508,844	169,429	678,273
Use of money and property		0	44	44
Total receipts:		508,844	169,473	678,317
Disbursements:				
Public Works		507,448	0	507,448
Capital Projects		0	471,545	471,545
Total disbursements		507,448	471,545	978,993
Excess (deficiency) of receipts over (under) disbursements		1,396	(302,072)	(300,676)
Operating transfers in (out), net		0	330,000	330,000
Net change in cash balances		1,396	27,928	29,324
Cash balances beginning of year		139,325	87,429	226,754
Cash balances end of year	\$	140,721	115,357	256,078
Cash Basis Fund Balances				
Unreserved:				
Special revenue fund	\$	140,721	0	140,721
Capital project fund		0	115,357	115,357
Total cash basis fund balances	\$	140,721	115,357	256,078

See accompanying independent auditor's report.

CITY OF INDEPENDENCE

CITY OF INDEPENDENCE

Schedule of Indebtedness

Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
G. O. refunding bonds, Series 2005 B	May 1, 2005	2.85 to 4.30	2,565,000
Revenue bonds:			
Sewer revenue improvement and refunding bonds	Sep 1, 2003	3.70 to 4.25	5,035,000
Sewer revenue improvement bonds, series 2005 A	May 1, 2005	4.40 to 5.00	3,325,000
Total Revenue bonds			
Loan from Independence Light Plant:			
Municipal Light Plant	Mar 11, 1996	none	72,000
Totals			

See accompanying independent auditor's report.

Schedule 2

Balance Beginning of Year	Issued during Year	Redeemed during Year	Balance End of Year	Interest Paid	Fees Paid	Interest Due and Unpaid
2,125,000	0	470,000	1,655,000	73,752	400	6,146
4,465,000	0	240,000	4,225,000	187,782	400	14,909
3,325,000	0	0	3,325,000	170,265	400	13,097
7,790,000	0	240,000	7,550,000	358,047	800	28,006
25,626	0	13,800	11,826	0	0	0
9,940,626	0	723,800	9,216,826	431,799	1,200	34,152

Schedule 3

CITY OF INDEPENDENCE

Bond and Loan Maturities

June 30, 2007

General Obligation Bonds			Loan	
G. O. Refunding Bonds, Series 2005 B \$2,565,000 Issued May 1, 2005			Independence Light Plant (for Fire Department) \$72,000 Issued March 11, 1996	
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount
2008	3.15%	475,000	none	11,826
2009	3.30%	255,000		0
2010	3.50%	125,000		0
2011	3.60%	100,000		0
2012	3.75%	100,000		0
2013	3.90%	100,000		0
2014	4.00%	100,000		0
2015	4.05%	100,000		0
2016	4.10%	100,000		0
2017	4.20%	100,000		0
2018	4.30%	100,000		0
Totals		\$1,655,000		\$11,826

Revenue Bonds					
Sewer Revenue Improvement and Refunding Bonds \$5,035,000 Issued September 1, 2003			Sewer Revenue Improvement Bonds, Series 2005 A \$3,325,000 Issued May 1, 2005		
Year Ending June 30,	Interest Rates	Amount	Interest Rates	Amount	Total Revenue Bonds
2008	3.70%	250,000		0	250,000
2009	3.70%	255,000		0	255,000
2010	3.75%	260,000	4.40%	120,000	380,000
2011	3.75%	270,000	4.40%	125,000	395,000
2012	3.75%	275,000	4.40%	130,000	405,000
2013	3.80%	215,000	4.40%	135,000	350,000
2014	3.90%	220,000	4.40%	140,000	360,000
2015	4.00%	230,000	4.40%	145,000	375,000
2016	4.125%	240,000	4.40%	150,000	390,000
2017	4.20%	250,000	4.50%	160,000	410,000
2018	4.25%	260,000	4.60%	165,000	425,000
2019	4.25%	275,000	4.65%	175,000	450,000
2020	4.25%	285,000	4.75%	180,000	465,000
2021	4.25%	300,000	4.80%	190,000	490,000
2022	4.25%	315,000	4.85%	200,000	515,000
2023	4.25%	325,000	4.90%	210,000	535,000
2024		0	5.00%	535,000	535,000
2025		0	5.00%	565,000	565,000
Totals		\$4,225,000		\$3,325,000	\$7,550,000

See accompanying independent auditor's report.

CITY OF INDEPENDENCE

Schedule 4

Schedule of Receipts by Source and Disbursements by Function -
All Governmental Funds

For the Last Four Years ended June 30,

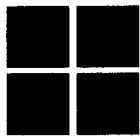
	2007	2006	2005	2004
Receipts:				
Property tax	\$ 1,801,693	1,680,132	1,772,674	1,909,268
Tax Increment Financing (TIF) receipts	924,900	740,900	1,300,775	576,287
Other city tax	22,104	51,308	7,149	1,557
Licenses and permits	34,136	63,706	63,091	47,529
Use of money and property	95,688	63,329	14,860	15,803
Intergovernmental	1,806,638	1,685,868	1,748,426	1,759,593
Charges for services	622,263	627,273	603,223	746,901
Special assessments	33,281	40,707	63,632	92,947
Miscellaneous	360,942	212,944	152,247	77,544
Total receipts	\$ 5,701,645	5,166,167	5,726,077	5,227,429
Disbursements:				
Operating:				
Public Safety	\$ 1,519,395	1,328,680	1,275,999	1,239,005
Public Works	910,403	899,601	859,456	1,429,035
Health & social services	0	0	0	410
Culture & Recreation	715,978	751,392	623,785	628,386
Community & Economic Development	592,420	345,010	469,086	163,034
General Government	433,101	392,797	368,922	394,955
Debt Service	544,152	549,959	776,233	760,538
Capital Projects	1,592,051	621,700	516,989	947,835
Total disbursements	\$ 6,307,500	4,889,139	4,890,470	5,563,198

See accompanying independent auditor's report.

CITY OF INDEPENDENCE

CITY OF INDEPENDENCE

**Independent Auditor's Report
on Internal Control
over Financial Reporting
and on Compliance
and Other Matters Based
on an Audit of Financial Statements
Performed in Accordance
with Government Auditing Standards**



SHAFFER COMPANY, P.C.

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**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

**To the Honorable Mayor and
Members of the City Council:**

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Independence, Iowa, as of and for the year ended June 30, 2007, which collectively comprise of the City's basic financial statements listed in the table of contents and have issued my report thereon dated January 30, 2008. My report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Independence's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, I noted certain matters involving the internal control over financial reporting and its operation that I consider to be reportable conditions. Reportable conditions involve matters coming to my attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in my judgment, could adversely affect the City of Independence's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, I believe item II-A-07 is a material weakness. Prior year reportable conditions have been resolved except for item II-A-07.

Compliance

As part of obtaining reasonable assurance about whether the City of Independence's financial statement are free of material misstatements, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance that are required to be reported under Governmental Auditing Standards. However, I noted certain immaterial instances of non-compliance that are described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of the statutes. Prior year statutory comments have been resolved except for item II-A-07.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Independence and other parties to whom the City of Independence may report. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Independence during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

SHAFFER COMPANY, P.C.

Shaffer Company, P.C.

Sumner, Iowa

January 30, 2008

CITY OF INDEPENDENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part I: Summary of the Independent Auditor's Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose a non-compliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

II-A-07 Segregation of duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that several of the accounting procedures are sometimes done by the same person.

Recommendation - I realize that with a limited number of office employees, segregation of duties is difficult. However, that City should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate this.

Conclusion - The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

CITY OF INDEPENDENCE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

Part III: Other Findings Related to Statutory Reporting:

III-A-07 Official Depositories - A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2007.

III-B-07 Certified Budget - Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the Business Type Activities function. Chapter 384.18 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - While the budget was amended once during the year, it should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

III-C-07 Questionable Disbursements - No disbursements were noted for parties, banquets, or other entertainment for employees that I believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

III-D-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-E-07 Business Transactions - There were no business transactions between the City and City officials or employees.

III-F-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

III-G-07 Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

III-H-07 Deposits and Investments - I noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

III-I-07 Revenue Bonds and Notes - The City has complied with revenue bond and note resolutions.

III-J-07 Payment of General Obligation Bonds - The City properly paid for its general obligation bonds out of the Debt Service Fund.

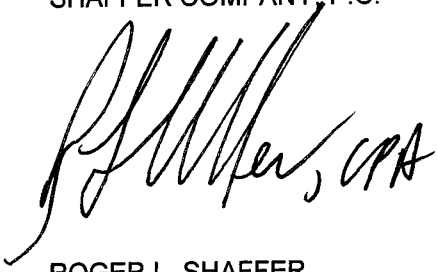
CITY OF INDEPENDENCE

AUDIT STAFF

This audit was performed by:

Roger L. Shaffer, C.P.A., Owner & Manager of the Firm

SHAFFER COMPANY, P.C.

A handwritten signature in black ink, appearing to read "R. L. Shaffer, CPA". The signature is fluid and cursive, with the letters "R", "L", and "S" being particularly prominent.

ROGER L. SHAFFER
Certified Public Accountant